

Mr. Thomas S. Tiller, CFO
Laurel Baye Healthcare, LLC
Post Office Box 2700
Pawleys Island, South Carolina 29585

Re: AC# 3-WLS-A9 – Silver Springs Healthcare Center

Dear Mr. Tiller:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period August 1, 1998 through January 31, 1999. That report was used to set the rate covering the contract periods beginning August 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

Mr. Thomas S. Tiller, CFO
Laurel Baye Healthcare, LLC
Post Office Box 2700
Pawleys Island, South Carolina 29585

Re: Draft Report – AC# 3-WLS-A9 – Silver Springs Healthcare Center

Dear Mr. Tiller:

The accompanying draft report has been prepared by our office. Please review the adjustments as presented.

If you have any questions concerning this report and would like a formal exit conference with the auditors, please write to Mr. John Corbacho, CPA, regarding the establishment of a meeting date. Your correspondence should include the above referenced control number. Your request for a conference must be made within ten (10) calendar days of your receipt of this report, and the conference must be held within twenty (20) calendar days of your receipt of this report. Any additional documentation in support of allowable cost must be received by our office no later than twenty (20) calendar days after your receipt of this report.

If we do not hear from you within ten (10) calendar days of your receipt of this report, we will assume you do not want an exit conference. In this case, I will reissue this report to you in final form and you will have thirty (30) calendar days in which to file a formal appeal if you so desire.

Yours very truly,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

Ms. Brenda L. Hyleman, Director
Division of Home Health and Nursing Home Services
Department of Health and Human Services
Post Office Box 8206
Columbia, South Carolina 29202-8206

Re: Draft Report – AC# 3-WLS-A9 – Silver Springs Healthcare Center

Dear Ms. Hyleman:

Please review the adjustments contained in the accompanying draft report. If you have any comments or disagreements with the adjustments and resulting computations, please contact Mr. John Corbacho, CPA, within ten (10) calendar days.

Use of the above referenced control number is requested on any subsequent correspondence pertaining to this report.

If you do not have any comments, it will be assumed you are in agreement with the report and only those concerns of the Provider, if any, will be considered prior to the issuance of the final report.

Yours very truly,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Mr. Jeff Saxon
Mr. Robert M. Kerr

**SILVER SPRINGS HEALTHCARE CENTER
WILLISTON, SOUTH CAROLINA**

**CONTRACT PERIODS
BEGINNING AUGUST 1, 1998
AC# 3-WLS-A9**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 18, 2000

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Silver Springs Healthcare Center, for the contract periods beginning August 1, 1998, and for the six month cost report period ended January 31, 1999, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Silver Springs Healthcare Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summaries of Costs and Total Patient Days, and Cost of Capital Reimbursement Analyses sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Silver Springs Healthcare Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
July 18, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

SILVER SPRINGS HEALTHCARE CENTER

Computation of Rate Change
For the Contract Periods
Beginning August 1, 1998
AC# 3-WLS-A9

	08/01/98 <u>09/30/98</u>	10/01/98 <u>11/30/98</u>	12/01/98 <u>01/31/99</u>	02/01/99 <u>09/30/99</u>	10/01/99 <u>09/30/00</u>
Interim reimbursement rate (1)	\$97.21	\$98.92	\$99.67	\$102.93	\$109.94
Adjusted reimbursement rate (2)	<u>84.24</u>	<u>86.86</u>	<u>87.61</u>	<u>99.72</u>	<u>102.83</u>
Decrease in reimbursement rate	<u>\$12.97</u>	<u>\$12.06</u>	<u>\$12.06</u>	<u>\$ 3.21</u>	<u>\$ 7.11</u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999
- (2) The South Carolina State Plan, Attachment 4.19D Section III E. states, "Effective November 22, 1991, to qualify for a 'new facility rate' based upon a six month cost report under a change in ownership, a sale or lease of assets between unrelated parties must occur." The sale to CC&W by the current and former owner was not a sale between unrelated parties or an arms length transaction. Therefore, the facility does not qualify for a "new facility rate." This cost report will be treated as a change in ownership through a lease of fixed assets. The South Carolina State Plan, Attachment 4.19D Section III E.2. requires, "In the event of a lease of fixed assets between unrelated parties, the new operator (i.e., lessee) will receive the prior operator's rate (i.e., lessor) for the first six full calendar months of operation."

SILVER SPRINGS HEALTHCARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Periods February 1, 1999 Through September 30, 1999
AC# 3-WLS-A9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$42.78	\$47.40	
Dietary		11.44	10.41	
Laundry/Housekeeping/Maint.		<u>11.45</u>	<u>7.86</u>	
Subtotal	\$ <u>-</u>	65.67	65.67	\$65.67
Administration & Med. Records	\$ <u>-</u>	<u>12.33</u>	<u>11.13</u>	<u>11.13</u>
Subtotal		78.00	<u>\$76.80</u>	76.80
<u>Costs Not Subject to Standards:</u>				
Utilities		2.68		2.68
Special Services		1.19		1.19
Medical Supplies & Oxygen		5.11		5.11
Taxes and Insurance		1.58		1.58
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$88.56</u>		87.36
Inflation Factor (3.60%)				3.14
Cost of Capital				8.22
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Minimum Wage Add-on				.25
CNA Add-On				<u>.75</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$99.72</u>

SILVER SPRINGS HEALTHCARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-WLS-A9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$42.78	\$50.99	
Dietary		11.44	11.42	
Laundry/Housekeeping/Maint.		<u>11.45</u>	<u>8.77</u>	
Subtotal	<u>\$4.98</u>	65.67	71.18	\$ 65.67
Administration & Med. Records	<u>\$ -</u>	<u>12.33</u>	<u>12.21</u>	<u>12.21</u>
Subtotal		78.00	<u>\$83.39</u>	77.88
<u>Costs Not Subject to Standards:</u>				
Utilities		2.68		2.68
Special Services		1.19		1.19
Medical Supplies & Oxygen		5.11		5.11
Taxes and Insurance		1.58		1.58
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$88.56</u>		88.44
Inflation Factor (3.00%)				2.65
Cost of Capital				8.12
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.98
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.23)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>1.12</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$102.83</u>

SILVER SPRINGS HEALTHCARE CENTER

Summary of Costs and Total Patient Days

For the Cost Report Period Ended January 31, 1999

For the Contract Periods February 1, 1999 Through September 30, 1999

AC# 3-WLS-A9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$379,597	\$ 602 (1)	\$ 2,103 (4) 20,702 (7) 14,333 (8) 891 (14)	\$342,170
Dietary	101,707	368 (1)	3,342 (7) 2,482 (8) 2,550 (14) 2,209 (15)	91,492
Laundry	16,007	-	113 (8) 51 (14)	15,843
Housekeeping	27,324	-	206 (8)	27,118
Maintenance	54,051	209 (1)	180 (2) 3,000 (6) 405 (8) 2,055 (12)	48,620
Administration & Medical Records	119,831	120 (1) 2,669 (16)	666 (2) 8,402 (3) 1,178 (4) 7,266 (7) 40 (8) 6,427 (13)	98,641
Utilities	21,401	-		21,401
Special Services	13,808	-	4,313 (11)	9,495
Medical Supplies & Oxygen	59,412	1,967 (1)	665 (4) 8,713 (14) 11,099 (20)	40,902
Taxes and Insurance	14,343	-	1,717 (5)	12,626
Legal Fees	-	-	-	-
Cost of Capital	65,886	937 (12) 424 (13)	741 (9) 244 (10) 37 (17) 503 (18)	65,722
Subtotal	873,367	7,296	106,633	774,030

SILVER SPRINGS HEALTHCARE CENTER

Summary of Costs and Total Patient Days

For the Cost Report Period Ended January 31, 1999

For the Contract Periods February 1, 1999 Through September 30, 1999

AC# 3-WLS-A9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	10,432	-	-	10,432
Non-Allowable	88,636	846 (2) 169 (3) 3,946 (4) 1,164 (5) 3,000 (6) 31,310 (7) 17,579 (8) 741 (9) 4,313 (11) 1,118 (12) 6,003 (13) 12,205 (14) 2,209 (15) 37 (17) 503 (18) 11,099 (20)	3,266 (1) 2,669 (16)	178,943
Total Operating Expenses	<u>\$972,435</u>	<u>\$103,538</u>	<u>\$112,568</u>	<u>\$963,405</u>
Total Patient Days	<u>7,998</u>	<u>-</u>	<u>-</u>	<u>7,998</u>
Total Beds	<u>44</u>			

SILVER SPRINGS HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended January 31, 1999
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-WLS-A9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$379,597	\$ 602 (1)	\$ 2,103 (4) 20,702 (7) 14,333 (8) 891 (14)	\$342,170
Dietary	101,707	368 (1)	3,342 (7) 2,482 (8) 2,550 (14) 2,209 (15)	91,492
Laundry	16,007	-	113 (8) 51 (14)	15,843
Housekeeping	27,324	-	206 (8)	27,118
Maintenance	54,051	209 (1)	180 (2) 3,000 (6) 405 (8) 2,055 (12)	48,620
Administration & Medical Records	119,831	120 (1) 2,669 (16)	666 (2) 8,402 (3) 1,178 (4) 7,266 (7) 40 (8) 6,427 (13)	98,641
Utilities	21,401	-	-	21,401
Special Services	13,808	-	4,313 (11)	9,495
Medical Supplies & Oxygen	59,412	1,967 (1)	665 (4) 8,713 (14) 11,099 (20)	40,902
Taxes and Insurance	14,343	-	1,717 (5)	12,626
Legal Fees	-	-	-	-
Cost of Capital	65,070	937 (12) 424 (13)	741 (9) 244 (10) 37 (17) 473 (19)	64,936
Subtotal	872,551	7,296	106,603	773,244

SILVER SPRINGS HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended January 31, 1999
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-WLS-A9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	10,432	-	-	10,432
Non-Allowable	89,452	846 (2) 169 (3) 3,946 (4) 1,164 (5) 3,000 (6) 31,310 (7) 17,579 (8) 741 (9) 4,313 (11) 1,118 (12) 6,003 (13) 12,205 (14) 2,209 (15) 37 (17) 473 (19) 11,099 (20)	3,266 (1) 2,669 (16)	179,729
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$972,435</u>	<u>\$103,508</u>	<u>\$112,538</u>	<u>\$963,405</u>
Total Patient Days	<u>7,998</u>	<u>-</u>	<u>-</u>	<u>7,998</u>
Total Beds	<u>44</u>			

SILVER SPRINGS HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended January 31, 1999
AC# 3-WLS-A9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nursing	\$ 602	
	Dietary	368	
	Maintenance	209	
	Administration	120	
	Medical Supplies & Oxygen	1,967	
	Nonallowable		\$ 3,266
	To adjust the trial balance to the amounts per the general ledger HIM-15-1, Section 2304		
2	Nonallowable	846	
	Administration		666
	Maintenance		180
	To remove beginning balance from the amounts on the general ledger HIM-15-1, Sections 2302.1 and 2304		
3	Prepaid Loan Cost	8,233	
	Nonallowable	169	
	Administration		8,402
	To disallow working capital interest expense not adequately documented and to properly amortize related loan costs HIM-15-1, Section 2304, 202.4		
4	Nonallowable	3,946	
	Nursing		2,103
	Administration		575
	Medical Records		603
	Medical Supplies & Oxygen		665
	To disallow expense not adequately documented HIM-15-1, Section 2304		
5	Prepaid Insurance	553	
	Nonallowable	1,164	
	Taxes, Insurance & Licenses		1,717
	To properly state general and liability insurance and to disallow auto insurance HIM-15-1, Sections 2302.1 and 2304 State Plan, Attachment 4.19D		

SILVER SPRINGS HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended January 31, 1999
AC# 3-WLS-A9

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Maintenance	3,000	3,000
	To disallow expense which has been capitalized HIM-15-1, Section 2304		
7	Nonallowable Nursing Dietary Administration	31,310	20,702 3,342 7,266
	To disallow vacation accrual due to provider policy HIM-15-1, Section 2304		
8	Administration Nonallowable Nursing Restorative Dietary Laundry Housekeeping Maintenance Medical Records	36 17,579	13,311 1,022 2,482 113 206 405 76
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
9	Accumulated Depreciation Other Equity Nonallowable Cost of Capital - Loss on Disposal Fixed Assets Cost of Capital	8,630 9,184 741 83	17,814 824
	To remove assets no longer at the facility and record loss on disposal HIM-15-1, Section 130		

SILVER SPRINGS HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended January 31, 1999
AC# 3-WLS-A9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Accumulated Depreciation	22,529	
	Other Equity		6,485
	Fixed Assets		15,800
	Cost of Capital		244
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
11	Nonallowable	4,313	
	Physical Therapy		660
	Occupational Therapy		1,960
	Speech Therapy		1,693
	To adjust co-insurance for Medicare Part B services State Plan, Attachment 4.19D		
12	Fixed Assets	9,370	
	Cost of Capital	937	
	Nonallowable	1,118	
	Maintenance		2,055
	Accumulated Depreciation		5,466
	Other Equity		3,904
	To disallow lease expense for capitalized lease and record asset improperly removed from books HIM-15-1, Sections 110B and 130		
13	Cost of Capital	424	
	Nonallowable	6,003	
	Administration		6,427
	To adjust home office cost HIM-15-1, Section 2304, 2150.3		

SILVER SPRINGS HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended January 31, 1999
AC# 3-WLS-A9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
14	Nonallowable	12,205	
	Nursing		891
	Dietary		2,550
	Laundry		51
	Medical Supplies & Oxygen		8,713
	To disallow expenses not adequately documented HIM-15-1, Section 2304		
15	Nonallowable	2,209	
	Dietary		2,209
	To disallow undocumented dietary salary expense HIM-15-1, Section 2304		
16	Administration	2,669	
	Nonallowable		2,669
	To revise the allocation of administrative salaries to Meadow Brook to reflect the documented amount HIM-15-1, Section 2304		
17	Nonallowable	37	
	Cost of Capital		37
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
18	Nonallowable	503	
	Cost of Capital		503
	To adjust capital return State Plan, Attachment 4.19D (For the rate periods 02/01/99-09/30/99)		
19	Nonallowable	473	
	Cost of Capital		473
	To adjust capital return State Plan, Attachment 4.19D (For the rate period beginning 10/01/99)		

SILVER SPRINGS HEALTHCARE CENTER

Adjustment Report

Cost Report Period Ended January 31, 1999

AC# 3-WLS-A9

ADJUSTMENT
NUMBER

NUMBER

ACCOUNT TITLE

DEBIT

CREDIT

20

Nonallowable

11,099

Medical Supplies & Oxygen

11,099

To adjust specialty bed expense

State Plan, Attachment 4.19D

TOTAL ADJUSTMENTS

\$162,629

\$162,629

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

SILVER SPRINGS HEALTHCARE CENTER

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended January 31, 1999

For the Contract Periods February 1, 1999 Through September 30, 1999

AC# 3-WLS-A9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1814</u>
Deemed Asset Value (Per Bed)	34,069
Number of Beds	<u>44</u>
Deemed Asset Value	1,499,036
Improvements Since 1981	33,245
Accumulated Depreciation at 01/31/99	<u>(407,316)</u>
Deemed Depreciated Value	1,124,965
Market Rate of Return	<u>.067</u>
Total Annual Return	75,373
Number of Days in Period	<u>184/365</u>
Adjusted Annual Return	37,996
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	37,996
Depreciation Expense	27,726
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	65,722
Total Patient Days (Actual Days)	<u>7,998</u>
Cost of Capital Per Diem	\$ <u><u>8.22</u></u>

SILVER SPRINGS HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended January 31, 1999
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-WLS-A9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>44</u>
Deemed Asset Value	1,545,720
Improvements Since 1981	33,245
Accumulated Depreciation at 01/31/99	<u>(407,316)</u>
Deemed Depreciated Value	1,171,649
Market Rate of Return	<u>.063</u>
Total Annual Return	73,814
Number of Days in Period	<u>184/365</u>
Adjusted Annual Return	37,210
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	37,210
Depreciation Expense	27,726
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	64,936
Total Patient Days (Actual Days)	<u>7,998</u>
Cost of Capital Per Diem	\$ <u>8.12</u>